

Directors' Report

to the Shareholders of Meridian Finance

Dear Shareholders,

The Board of Directors of Meridian Finance & Investment Limited cordially welcome you in the 3rd Annual General Meeting of the Company.

On behalf of the Board of Meridian Finance, I have the pleasure in presenting the Director's Report on the operational and financial activities of your Company, audited financial statements for the year ended 31st December 2016; the auditor's report together with company's performance which includes reports on business strategy review, risk management, corporate governance, financial and operational highlights for your consideration, approval and adoption. This report has been prepared in accordance with Section 184 of the Companies Act 1994, Financial Institutions Act 1993 and the guidelines / circulars issued by Bangladesh bank and other relevant regulatory authorities.

The year 2016 was an excellent year for Meridian Finance to create its strong foothold in the NBFi fraternity with remarkable growth on its core business operations while setting its backbone and team structure to cater the service needs of its different client base. In the backdrop of low credit appetite, mounting pressure on declining deposit & lending rate, Meridian Finance demonstrated high resilience in achieving its key performance indicators. The loan portfolio stood as high as BDT 2.78 billion with Zero percentage classified loan ratio. On the other hand, Meridian Finance managed to build a strong deposit portfolio consists of both institutional and individual clients of BDT 2.30 billion. Your Company earned after tax net profit of BDT 50.69 million in 2016, meeting or exceeding all financial and operational objectives. The performance outlines our strength and capabilities to deliver a sustainable growth ensuring growing returns to our shareholders and stakeholders.

Review of Bangladesh Economic Outlook 2016

The year 2016 saw Bangladesh move beyond political instability that had plagued the country in 2014 and 2015. Although there was a major terrorist attack did take place, there was no significant disruption in business activities, As a result, 2016 was good stable year in terms of economic activities. The Bangladesh economy has been one of the top performers in Asia over the past decade, averaging annual growth of more than 6%. Bangladesh has entered 7%+ GDP trajectory in 2016 despite the face of external global developments and internal many challenges, Bangladesh achieved 7.05% GDP growth in 2016, exceeding the expectations of the World Bank and IMF, aided by revived exports and sustainable domestic consumption, placing it among the top 12 developing countries in the world. According to the ADB, Bangladesh's economy is the third fastest growing economy in 2016. The per capita GDP has increased to USD 1,466 from USD 1,316 in the last fiscal year.

The economic stability is highlighted by the fact that the overall inflation declined by about 1% from the previous year standing at 5.03% in December 2016. The average inflation rate remained below 6% much through 2015-16. Government's forward looking strategies on infrastructure development and welcoming foreign direct investments has facilitated the economic acceleration to a faster momentum. The foreign investment inflows stood at a record high of USD 2.23 billion in 2015, witnessing a significant 44% increase over 2014, standing only second to India in this matrix according to the World Investment Report 2016.

Most of the growth that Bangladesh has experienced come from garment exports, which CIA World Fact book says accounts for more than 80% of its exports. The Gulf countries, the largest labor market for Bangladeshi expatriates and also the main source of remittance, are going through an economic crisis due to the oil price slump. As a result, remittance inflow from those countries declined which hit hard the overall remittance inflow in Bangladesh. The country's remittance inflow witnessed a sharp fall by 11.13% in the just concluded year 2016. The foreign currency reserve reached to the record high level of USD 32 billion equivalent to more than nine month's imports of goods and services in 2016. The capital market performed well in 2016. The benchmark DSEX index posted 8.78% during the year, while the average daily turnover increased by 17.1% YoY. The financial system of Bangladesh demonstrated strong performance attributable to prudent policies of the financial sector regulators as well as timely and efficient monetary and fiscal stances. The money market remained largely consistent with the previous year's trends. Overall interest rates continues to fall with huge excess liquidity in the financial system.

Meridian Finance's Performance Snapshot

Business & Operational Activities

Meridian Finance has emerged as a multi-product financial service provider having major focus in SME Financing, Corporate Financing, Consumer Financing, Factoring & Work Order Financing, Corporate Advisory Services and Deposit products. It provides a high standard of professional and personalized services to its diverse set of client maintaining strict compliance and highest ethical standards. The Company's strategy is to build up a well-diversified credit portfolio across different sectors to manage risk prudently. As of 2016, the credit portfolio represents of 57% Term Loan, 2.5% Lease Finance, 32% SME Finance, 0.50% Factoring & Work Order Finance and 9% Consumer Finance respectively. New disbursement for the year was about BDT 3.26 billion.

Performance Highlights

Meridian Finance focused on quality growth which has a profound impact on the lives of its clients. Thereby we consider us more than a financial institution that is keeping its strong blueprints in building the nation and taking part in the financial activities for the development. Our objective is to help our clients to shape their success stories as a trusted partner. As our clients focus on realizing their aspirations, we become an integral part in Shaping Stories of their achievement and success. During the year 2016, the Company focused on to create meaningful new relationships with its different segment of clients and successfully pulled clients to its portfolio and positioned itself in the NBFi fraternity.

Stiff competition among Banks and FIs were seen during the year especially due to high liquidity and offshore bank borrowings of large corporate bodies. Meridian Finance made best effort to capture reasonable pie of business especially from the emerging corporate clients. The result of our strategy was that despite of challenges our corporate loan book increased the most among all other divisions at about 58% to BDT 1.65 billion. NBFi Sector has very limited scope of fee based business. We have established our Structure Finance Division with reasonable expertise to go for arranging syndicated funding for corporate houses & was able to receive positive response from clients. Our structured finance wing, which is a part of the corporate division, successfully struck a syndication finance deal to raise BDT 1 billion as the lead arranger to establish a state of the art aluminum and cable manufacturing factory in Gazipur. In another syndication deal, our structure finance team on boarded the mandate to raise BDT 400 million to establish a Green Tunnel Kiln Auto Brick manufacturing factory in Mirrorsorai Chittagong. We also intensified our arms to go for IPA business with Commercial Paper Issuers & Managers.

Meridian Finance created a growth conducive operating environment to increase business volume by deepening focus on SME market which is considered as the key segment. The main thrust was placed to expand the market bandwidth and to broaden the sector mix. To expand the market bandwidth with in SME segment, the company looked at new products that are geared to support new startups. A range of value enhancement were introduced to broaden the sector mix with in SME segment aimed at mid-level SMEs who wish to take their business in next level. A series of market penetration strategies were initiated to put the services near to the customers. These efforts were successful & paved the way to increase our exposure to various sub-segments. Outstanding SME loan portfolio reached to BDT 860 million at the end of the year 2016, which is 32% of the loan portfolio covering different cluster of industries.

Consumer Loan business like home loans & car loans is fiercely competitive. To ride in the race we focused to provide value to clients through better service, standard documentation and quick approval & disbursement followed by advisory assistance. Consumer Loan appears to be very competitive as far as the rate is concern. Despite many challenges, we have recorded our consumer loan portfolio especially with Home & Car loan at BDT 2,540 million. Factoring Business has a good prospect considering the risk & margin, we however could not penetrate much in 2016 but developed a systematic customer oriented process flow & like to put our card on this business in the coming days.

Funding

Credit Lines from Commercial Bank are conventional source of funding for the newly established NBFi but we have initiated a number of steps during the year to create visibility & promote Meridian Finance as a licensed deposit taking NBFi. Our treasury team demonstrated outstanding performance in managing liquidity and keeping the cost of fund low. Continued emphasis was placed to onboard available all the refinancing schemes offered by Bangladesh Bank, call money borrowing & lending and to get cheaper sources of deposits from Individual and Institutions. The company was successful in attaining the desired

objective, denoted by 85% of the portfolio (BDT 2,785 million) was booked through deposit (BDT 2,371 million). Meanwhile, the company also used Call Money Market, Overdraft Facilities, and Short Term Facilities from Bank & NBFIs & limited term loan from commercial bank for further support of its funding requirement. Consequently, the Company could maintain its average cost of fund to the level of 8.25% during the year.

Asset Quality

Although the lending portfolio grew at a faster rate during the year, asset quality was successfully maintained, as the overdue virtually remained very marginal during the year. Vigorous follow up and monitoring of client's loan account performance paid off in managing Zero NPL during the year 2016.

Key Financial Performance

Meridian Finance's Net Interest Income and Operating Income witnessed a significant growth during the year and reached to BDT 169.33 million and BDT 184 million respectively. Investment income during the year was BDT 2.57 million whereas Fee Income was BDT 12.29 million.

To accommodate our growing human capital, we took a new Corporate Head Office Extension Office with nearest proximity from our Head Office in Gulshan in 2016. This office has been utilized not only to accommodate the back office functions but also to work as Principal Branch office of Meridian Finance. To increase our reach out to clients, we initiated the process of opening of two branch offices. The first one is at Gazipur and another one is the Bogra which we hope to be operational by the first half of next year. Cost to income ratio of the Company during the year was 42%, the majority of the cost after salary & allowance was incurred for setting up of Corporate & Extension offices and related infrastructure of the Company. In the coming years, the cost to income ratio will be declined gradually in line with the increase quantum of business. Profit before provision of the Company was BDT 105.23 million. There were no specific provision during the year other than the general provision of BDT 19.5 million. Meridian Finance witnessed profit before tax and reserve of BDT 85.72 million and Net Profit after Tax of BDT 50.69 million respectively for the year ended 2016. The EPS stood at BDT 0.42. Overall performance of the Company during the year 2016 was satisfactory and showed good prospects ahead to achieve better results.

Human Resources Management

We have been quite successful in attracting talents during the year and made a blended mix of quality human capital with dynamism, agility and experience. Our talents has built up the foundations and confidence for organic growth as we continue to proceed ahead to embark upon new challenges. MFIL strongly believes that its human resources are its most precious assets and recognizes them as building blocks for the Company to perform sustainably. MFIL continues to develop and implement proper human resource policies to motivate its employees and ensures their optimum contribution towards the achievement of common goals. As our resources represent a significant competitive edge, the Company continues its policy of recruiting the best professionals and implementing diverse training and motivational programs to develop and retain high-quality, performance-oriented personnel. Our strategy is to reward the best and be fair to the rest.

Meridian Finance's Contribution to the Society

The Company is strictly committed to contribute for the economic and social development of the country. Besides our core activities, we give utmost priority to increase the standard of living condition of our clients and our employees and directly contribute to the exchequer in the form of various tax, excise duty and VAT during the year. Details are given later in this report in Statement of Contribution to Government Exchequer section.

Risk Management & Control Environment

High quality management of risk is one of Meridian Finance's hallmarks and thus a priority in its activity. It has combined prudence in risk management with use of advanced risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value. The activity of risks is governed by the following principles, which are aligned with Meridian Finance's strategy and business model and take into account the recommendations of the supervisory bodies, regulators and the market's best practices. These are:

- ▲ A culture of risks integrated throughout the organization. It embraces a series of attitudes, values, skills and ways of acting toward risks that are integrated into all processes, including taking decisions on change management and strategic and business planning.
- ▲ Independence of the risk function, covering all risks and providing an adequate separation between the risk generating units and those responsible for its control and supervision, and having the sufficient authority and direct access to the management and governance bodies which are responsible for setting and supervising the risk strategy and policies.
- ▲ Comprehensive approach to all risks as the objective for adequate management and control of them, including risks directly as well as indirectly originated but which can affect it. It is vital to have the capacity to draw up an all comprehensive view of the risks assumed, understand the relations between them and facilitate their overall assessment, without detriment to the differences of nature, degree of evolution and real possibilities of management and control of each type of risk, adapting the organization, processes, reports and tools to the features of each one.

Meridian Finance has different risk management team to manage and control all types of risks (i.e. Credit risk, concentration risk, market risk, operation risk, liquidity risk, market risk, compliance risk, reputation risk, environment and social risk, related party exposure risk, competition risk, Legal risk, ICT risk, Strategic risk etc.) prudently. The committees are as follows :

- ▲ Credit Evaluation Committee (CEC);
- ▲ Credit Risk Management Committee (CRM),
- ▲ Asset & Liability Management Committee (ALCO);
- ▲ Central Compliance Unit (CCU)
- ▲ Risk Management Forum;
- ▲ Internal Control Compliance Committee;
- ▲ HR & Compensation Committee;
- ▲ Corporate Governance Committee;
- ▲ Integrity Committee;
- ▲ Risk Analysis Unit;
- ▲ Meridian Finance's Ladies Forum
- ▲ Anti-Money Laundering & ICT Steering Committee

We are committed to manage the risks and ensure delivery of service to our stakeholders maintaining effective Risk Management System which pays off between risk and return.

Statutory Payments

The Board of Directors are satisfied that to the best of their knowledge and belief all statutory payments to all authorities have been paid on a regular basis.

Capital Expenditure

Meridian Finance incurred BDT 13.37million as capital expenditure mainly for interior decoration and renovation of its office premises, purchase of vehicles, furniture & fixtures, office equipment and IT equipment. The details of capital expenditure are shown under the head Property, Plant and Equipment Schedule in the Notes to the Financial Statements.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and such other matters required to be addressed in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Bangladesh and the Bangladesh Securities and Exchange Commission Meridian Finance has adequate resources to continue operations into the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Details about going concern assessment of Meridian Finance is presented in Assessment report on the Going Concern Status of Meridian Finance later in this report.

Corporate and Financial Reporting Framework

Financial Statements have been prepared in conformity with the requirements of the Bangladesh Financial Reporting Standards, Companies Act 1994, Financial Institutions Act 1993 and amendments thereto, Bangladesh Bank's Guidelines the Corporate Governance Code.

Directors Meeting and Remuneration

During the year 8 Board Meetings were held. All meeting fulfilled the quorum of 5 directors. On an average, in each meeting 9 directors were present. The Board has two sub-committee: Executive Committee (14 meetings held in 2016) and Audit Committee (4 meetings held in 2016).

For each meeting a fee of Tk. 6,250 (excluding VAT & Tax) is paid to directors as remuneration which is in line with Bangladesh Bank guideline made in this regard as well as Income Tax Ordinance 1984 & VAT Act 1991.

Appointment / Re-appointment of Directors

As per Article no. 79 of Schedule 1 of Companies Act 1994 and also as per Article No. 92 of Articles of Associations of Meridian Finance, at the first Ordinary Meeting of the Company, the whole of the Directors shall retire from office and at the ordinary Meeting in every subsequent year, one third of the Directors representing sponsor shareholders inclusive of co-opted directors for the time being and, one third of the Directors from public subscribers, if their number is not three or a multiple of three, then the number nearest to one third shall retire from office.

Furthermore, Article 93 of Articles of Meridian Finance also states that the Directors to retire in every year shall be those who have longest in office since their election, but as between persons who become Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by a lottery. A retiring director shall be eligible for re-election.

Md. Abdul Qader (Representative of Siam Superior Limited), Animesh Chandra Mazumder (Representative of Matrix Sweaters Limited), Shamima Nargis (Representative of Saima Samira Textile Mills Limited) and Shanaj Parven (Representative of Diganta Sweaters Limited) will be retired in 3rd Annual General Meeting and they seek reappointment.

Status of Compliance & Corporate Governance

Details are given in the next section of the report in Statement of Directors' Responsibility for Corporate Governance.

Statutory Auditors

Our existing Auditor K. M. HASAN & Co, Chartered Accountants had audited Financial Statements of Meridian Finance & Investment Limited for the year ended December 31, 2014, December 31, 2015 and December 31, 2016.

As they have already completed three years of Audit, we have to change Auditor for the year 2017 as per Bangladesh Bank guideline.

The Board in its 15th meeting held on March 13, 2017 recommended the shareholders to appoint EY Bangladesh (A. Qasem & Co., Chartered Accountants) as the Auditor of Meridian Finance for the year 2017 with a fee of BDT 100,000. Plus VAT. Meridian Finance has also taken prior approval from Bangladesh Bank to appoint A. Qasem & Co., Chartered Accountants, until completion of conclusion of the 4th AGM.

As far as the Directors are aware, the Auditors do not have any relationship with or interest with the Company that in their judgments, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Bangladesh, applicable on the date of this report.

The Auditors, A. Qasem & Co., Chartered Accountants have expressed their willingness to conduct audit of the Company. They come up for appointment at the Annual General Meeting, with the recommendation of the Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the appointment of A. Qasem & Co., Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

Internal Control System

The Directors of the Company have taken reasonable steps open to them to safeguard the assets of the Company and to prevent and detect frauds and any other irregularities. For this purpose, the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the risks faced by the Company throughout the year and it is being regularly reviewed by the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure, as far as practicable, the accuracy and reliability of the records.

Future Economic Outlook of Bangladesh

Bangladesh has continued to show signs of resilience and has entered into the 7%+ GDP growth trajectory. It is the second country in South Asia to share such performance after India. The future prospects for Bangladesh are bright, as the nation enters 2017 as one of the most optimistic countries in the world in terms of economic prosperity. Government of Bangladesh has also taken up the implementation of the 17 Sustainable Development Goals (SDGs), as listed by the United Nations, with the express intent of ending poverty, combating injustice and inequality and tackling climate change.

Going forward, we project higher economic growth on the back of increase in infrastructure spending and improved political stability. FY 17 budget targets stepping up spending on infrastructure to stimulate higher economic growth. Spending development needs, such as transport and power, is targeted to increase by 31% in the latest national budget. To provide impetus to the business activities, the government has fast tracked several large infrastructure projects. Public sector investment as percentage of GDP has increased to 7.6% in FY 16 which was 5.3% in FY 11. In line with government's vision to become middle income country by 2021, Bangladesh's highly successful EPZs in Dhaka and Chittagong are now complemented by new EPZ developments and other valuable real estate developments around the country with attractive incentives for Foreign Direct Investors. Moreover, government has given special attention on establishing economic zones in all potential areas including backward and underdeveloped regions with a view to encouraging rapid economic development through increase and diversification of industry, employment, production and export. Private sector confidence is slowly but surely on arise. With a stable political regime we are bullish on the macro story of Bangladesh for the next few years.

Increasing private sector credit growth will continue to support higher output. Private investment is expected to continue its increasing trend on the back of "crowd in effect" of public sector investment attracting private investment through implementation of higher public works. They moreover to attract private sector to increase its investment in the country, Government has planned to award more than 100 Economic Zone in different parts of the country with attractive incentives.

The government has allocated BDT 446.30 billion, which is 40.3% of ADP outlay for 61 large and fast track projects in FY 17. Estimated allocation for mega projects in the next three fiscal years will run into BDT 2,000 billion. As of November 2016 Padma Bridge project marked 40% progress. It will create direct linkage to southern part as well as Payra/Monga Ports with Chittagong. The Matarbari Coal Project with a price tag of BDT USD 4.4 billion is one of the costliest power projects of its size in the world will come with its own deep sea port to facilitate import of coal. Partially completed Payra Deep Sea Port will facilitate development of coal port and LNG Terminal for importing energy and setting up of imported energy based power plants. Accelerate Bangladesh, a US based company will build the floating LNG Terminal within next two years investing USD 500 million. The 2,400 MW Rooppur Nuclear Power project with a cost of USD 12.65 billion will start construction work in 2017 and to be completed by 2022. We assume high infrastructure investment in both private and public sector will boost up GDP growth in the days to come.

Future Outlook & Prospects of Meridian Finance

Under the backdrop of micro economic stability & policy reforms undertaken by the Government, it can be projected that 2017 would be better business year over 2016. Investment in infrastructure projects, Power Sector, Steel & Engineering, Textile & Readymade Garment, Construction, Leather & Leather goods sectors will create avenue for investment of NBFIs. In forthcoming year the company will focus on SME & Retail business to sustain growth momentum across all business KPI's. In terms of lending, priority would be to tap into new markets together with specialized products geared for niche market segments. Technology driven business model will be put in place to strengthen product portfolio & to improve versatility of distribution channels. Above all, more focus be given to increase fund/ fee based business & attract low cost retail deposit, and building a corporate brand to march forward. The branch network of Meridian Finance will be the main distribution channel as we will be more focused on SME & Retail products. The year 2017 should be the year to emphasis to establish branches in various uncrowded locations of the country. To enhance the productivity imparting training has to be intensified to sharpen staff competencies and to maintain service leadership.

With a view to support the long term sustainable growth of the Company, we intend to give utmost priority to build up our strength and capacity focusing into the 4Ps, which are essentially People, Process, Platform (Infrastructure & Technology) and Places (Touchpoints). On the back of 4Ps, we are confident to increase our market share competing with others and increase stakeholders return on investment in many folds.

Acknowledgements

The Board of Directors would take this opportunity to express their profound gratitude and extend appreciation to our values shareholders, clients, bankers, depositors, lenders, business partners, regulators, service providers and other stakeholders for their continued patronage and support and cooperation. The offers it's sincere thanks to the Bangladesh Bank, Bangladesh Security Exchange Commission, Registrar of Joint Stock Companies and Firms, National Board of Revenue, Ministry of Finance and other Government authorities for their support and cooperation. I would also like to thank to the employees of Meridian Finance for their dedication and commitment to make the year 2016 a successful one and look forward to make the year 2017 even better in every terms.

For and on behalf of the Board of Directors.



Kazi M Aminul Islam

Chairman

Meridian Finance & Investments Limited